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Policy Brief
**Reducing poverty in the Visegrad
countries**
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Contents

1. Introduction	1
The challenge: We cannot reduce poverty if we cannot measure poverty properly	1
Proposal: New poverty indicator should be introduced in the V4 countries	5

Abstract

Despite the robust economic growth of the V4 countries, based on Eurostat data the poverty rate in Central and Eastern Europe is still much higher than that in the Western European countries. However, the numbers of the official measurement method of the European Union, the AROPE, could mislead policymakers as it mainly relies on relative poverty sub-indicators, which are traditionally low in post-communist countries. For that reason, we recommend the establishment of a new indicator that is capable of 1) presenting a credible picture of the situation of poverty in the Visegrad countries; and 2) is based on data that are available going back years in the other EU Member States as well. This new indicator, a composite index, could be based on the data collected annually as part of the EU SILC survey as it satisfies both of these criteria.

1. Introduction

Even though the economy of the Visegrad countries has expanded spectacularly during the boom of the past years, **Central and Eastern European countries continue to be among the EU's poorest member states**. Slovakia is the 4th, Hungary is the 7th, Poland is the 8th poorest country (measured by GDP per capita adjusted by purchasing power).¹ Even the richest V4 country, Czechia (the 13th richest country in the European Union) is less developed than the poorest Western EU Member State, Italy (the 12th richest country). If we analyse the poverty rate in these countries, measured by severe material deprivation rate, we can observe that at least 8.7% of the Hungarians and 7.9% of the Slovaks live in poverty². Moreover, 33% of the Hungarians, 29-30% of the Slovaks and Poles, 22% of the Czechs are unable to face unexpected financial expenses³.

Moreover, **poverty is not only a problem for the individual affected**. Securing the conditions for a dignified life is also necessary in order to help someone become a productive member of society and to help them not to depend on society. Someone whose deprivation prevents them from learning and educating themselves further, or from taking appropriate jobs, may well waste their active years and will hence also fail to assume their share in

building our common society. **The poverty of individuals holds the entire economy back**: poor people are less productive; their life expectancy is much lower; they are more likely to become inactive or unemployed; and they pay, of course, less taxes. . That is how **the individual problem of poverty becomes a social problem**, how individual fates become social burdens. **That is why reducing poverty is at the same time a moral imperative and our mutual social interest**.

The challenge: We cannot reduce poverty if we cannot measure poverty properly

Even though poverty is one of the key problems in V4 countries, **there is no consensus about the way poverty should be measured**. There are numerous approaches to measuring poverty today. These can be classified into two predominant types: absolute and relative measurement methods.

1. In the case of **absolute measurement methods**, researchers pre-define a threshold separating members of the population considered to be poor. This threshold is most commonly defined on the basis of income level: researchers determine the amount of money per day that should be available to an individual for decent living conditions, and those below this cut-off level are deemed poor. Obviously,

¹ Source: Eurostat, 2020, https://ec.europa.eu/eurostat/databrowser/view/sdg_10_10/default/table?lang=en

² Source: Eurostat, 2019, [https://ec.europa.eu/eurostat/statistics-](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Severe_material_deprivation_rate,_2015-2019_(%25)_SILC20.png)

[explained/index.php?title=File:Severe_material_deprivation_rate,_2015-2019_\(%25\)_SILC20.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Severe_material_deprivation_rate,_2015-2019_(%25)_SILC20.png)

³ Source: Eurostat, 2019, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Material_deprivation_statistics_-_early_results

determining the income limit for the poverty line – i.e. defining the **poverty threshold** – poses a methodological problem in itself. The World Bank and the UN, for example, draw the line for **extreme poverty** at incomes below USD 2 and USD 4 per day, respectively.ⁱ

In more developed countries, like the Visegrad countries, the absolute measure of poverty is calculated on the basis of specific needs that are considered basic human needs by society: it is the absolute minimum amount necessary for adequate food consumption, clothing, shelter and numerous additional day-to-day necessities. The basic needs method was applied, for example, in Hungary to calculate the ‘**subsistence minimum**’ – a concept that dates back more than a century.

A similar logic is behind another, frequently cited absolute measure: the **severe material deprivation (SMD) rate** developed by the EU. This rate gauges the proportion of people within the total population who, due to the lack of financial resources, cannot afford at least four of the nine consumption items defined by the EU. The existence or absence of four items out of the nine is indicative of poverty or severe deprivation.ⁱⁱ

2. In addition to absolute measures, researchers often rely on **relative poverty indicators**. The starting point is the recognition that it is always relative to another person or other persons (e.g. the majority of society) that people are considered poor. **Accordingly, relative poverty measures generally define the poverty line on the basis of – as a percentage – the average or median disposable income of the total population.**

The EU, for example, applies the **relative income poverty ratio** to express income poverty.ⁱⁱⁱ Based on this, people who live in households with disposable incomes below 60 percent of the median income typical for the relevant household type are considered poor. (This metric is calculated by ranking the population of a country by ascending income, and then identifying the income of the person positioned right in the middle of the scale – this will be the median or mean value, and the poverty line is defined at 60% of that value.) The main difference compared to absolute indicators is the ability of relative indicators – including the relative income poverty ratio presented above – to **take into account differences in the level of development of individual countries:** being poor compared to the average obviously means something entirely different in Sweden and in Slovakia. The thresholds, therefore, vary from country to country, and even from year to year in each country.

Subjective poverty indicators comprise another category: in contrast to the above, these metrics are **intended to express the respondents’ perception of their own poverty**. Although they are ‘soft’ measures, they play an important role in identifying those who perceive their own living conditions as living in poverty.

Most European countries measure the level of poverty and social exclusion by an indicator applied by the EU: the AROPE (*At Risk of Poverty or Social Exclusion*) rate.

AROPE consists of three main components (with an indicator assigned to each component): **1. income poverty; 2. material deprivation; and 3. social**

exclusion. According to the definition of the EU, individuals are considered to be at risk of poverty or social exclusion if they are affected by at least one of the three indicators referred to above.

We have already discussed the first two indicators applied by the EU: **while the income poverty ratio is a relative indicator, the percentage of people in severe material deprivation is an absolute measure.** These are supplemented by a third indicator, which is designed to measure the level of social exclusion (interpreted by the EU under the same framework as poverty): this is the ratio of individuals **living in a household with a very low work intensity.** To put it simply, this indicator measures the extent to which members of a family are excluded from the labour market for a sustained period. In order to capture this value, the indicator shows the percentage of persons who live in a household where working-age members (ages 18–59) work less than 20% of their total work-time potential compared to the entire population.

Composed of these three dimensions, AROPE is the **only poverty measure that is published on an annual basis in all Member States of the EU; in addition, all countries apply the same methodology^{iv} for the calculation.** Although it is suitable for long-term, broad-based comparisons, due to the methodological limitations – or even errors – of individual components, this indicator is far from being perfect.

The **main weakness** of the first indicator of AROPE – **income poverty** – **stems from the relative nature of the indicator,** and it is because of this that the indicator's use in understanding – let alone

addressing – real poverty is very limited. The baseline for calculating relative income poverty is the income distribution of the country under review; i.e. whether a person is considered poor or not is largely influenced by the income position of the rest of the population. **For statistical purposes, anyone can get out of or fall into poverty even with a completely unchanged income position simply as a result of a change in the income of the rest of the population.** This distorts the overall picture significantly: if, for example, a severe economic crisis hits the members of society equally, irrespective of their diverse income positions, the poverty ratio may easily remain the same in spite of (or, specifically because of) the fact that the impoverishment affects society as a whole. Or, if the income of the richest segment of society declines significantly because of a new state regulation or an economic bust, the income poverty ratio will improve even though no one has become richer; only the rich became less wealthy. In other words, **defying its name, for all intents and purposes the income poverty ratio measures social disparities rather than poverty.**

The second component, the severe material deprivation (SMD) rate is a useful, easy-to-understand measure; however, it can be used for international comparisons only with reservations, mainly because of the oftentimes excessive differences in the level of development of the countries concerned. The EU defines material deprivation through the use of nine consumption items that are far from playing the same role in a person's life: **there is a big difference between**

being unable to go for a holiday and being unable to keep one's home warm due to the scarcity of financial resources. It poses yet another methodological difficulty to define consumption items that may be equally important 'for all' irrespective of age, household type or cultural differences – items that households actually want to have if they can afford them.^v It is much easier to work out a 'set of deprivation items' for a single, specific country than for several countries with varying cultures and diverging levels of development.

In summary, this approach to deprivation is overly simplistic. That notwithstanding, it **clearly has the considerable advantage of being able to quantify specific shortages;** thus, its content is evident. For that reason, this indicator is **capable of reflecting** – for a specific individual country – **the real extent of poverty much more accurately than the other two indicators of AROPE.**

The third component of the AROPE indicator measures exclusion from the labour market. The drawback of this component is the fact that **exiting the labour market is only partly related to poverty** – as demonstrated by the extended duration of further education or the example of people living on their wealth and thus not working on a regular basis. The working poor are at the other end of the spectrum: crowds of people in poorly paid jobs or those who work for no compensation at all. Consequently, the measure is a special mixture of labour market outflows due to the loss of a job, the time spent on extended studies and permanent labour

market exits made possible by exceptional financial security.

Numerous EU Member States apply, in addition to the established international indicators, a national poverty measure – or even several types of measures – that are more aligned with their own poverty profile. In any event, at this time AROPE is considered to be the 'official' poverty indicator in all Visegrad countries – as in most Member States of the EU. However, the problem with this is the fact that **poverty in the Visegrad countries – as captured by AROPE – is overall significantly biased; consequently, policy solutions using AROPE as a point of reference will fail to reduce poverty efficiently.** Based on the methodology of the EU, the rate of poverty, for example, in Hungary is actually lower than in Luxembourg, Sweden, Austria or the Netherlands. **That is because, despite its name, the AROPE indicator does not really capture poverty but inequalities.**

Proposal: New poverty indicator should be introduced in the V4 countries

As we described above, **the most accepted indicators used to measure poverty today are unsuited for capturing the actual pervasiveness of the phenomenon in society.** This methodological difficulty impedes both the efforts at capturing the real impact of poverty as well as our understanding of the underlying dynamics.

Therefore, **we need a new indicator** that is capable of 1) **presenting a credible picture of the situation of poverty in the Visegrad countries;** and 2) **is based on data that are available going back years in the other EU Member States as well.**

This new indicator could be based on the data collected annually as part of the EU SILC survey as it satisfies both of these criteria. A **composite index** is, therefore, recommended for the V4 countries that is made up of five constitutive elements:

1. The **disposable income** of the given household (the question of whether this figure approaches the prevailing level of the existential minimum).
2. The ability of the given household **to heat their own family home.**
3. The ability of the given household to **nourish every member of the household with meat, fish, or their**

vegetarian equivalents at least **every other day.**

4. The ability of the given household to **cover unexpected and extraordinary expenses.**

5. Does the individual **have two good pairs of shoes.**

If we capture a **deficiency in the case of any of the five elements**, then the household is considered to be at **risk of poverty**. In the event of **two to three problem areas** that apply at the same time, the household is considered **poor**. **If four or five problems apply, then it is considered to be extremely poor.**

Overall, we should note that poverty is a complex phenomenon that determines every vital aspect of an individual's path through life. The main issue with respect to poverty is not an individual's disposable income but the lack of the skills they need for a life in dignity and agency in the pursuit of opportunities. Poverty is not merely about the lack of resources at one's disposal, the concept also extends to the lifestyle that this deprivation gives rise to, which limits those affected by poverty in many areas of life, from the labour market over healthcare, housing and the extensiveness of their social contacts all the way to child-rearing or mental health. That is why neither the diagnosis nor its solution can be limited to the problem of social transfers or the financial instruments available to an individual. When it comes to tackling poverty, the goal is not to treat the symptoms but to help people find a way out of the

poverty trap, to provide them with skills and abilities. Deprivation can only be effectively dealt with through public measures that are comprehensive and directed at several policy areas at the same time; even though it is true that the process necessarily involves interventions targeted at the distribution of income within society, these are by no means sufficient. Once we have managed to ensure that all Europeans have the minimum income at their disposal that they need for a decent life, we are immediately confronted with the next major issue: what kind of skills and abilities and real opportunities they have access to as a result. However, **before governments start implementing any policy measures** which aims at reducing poverty, **they should be aware of the fact that poverty is not properly measured to enable effective tackling of the problem. Introducing a new poverty indicator that better reflects the realities of the Visegrad countries is a must before any further steps.**

About the author

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ⁱ See *Sustainable Development Goals (SDG)*, <https://unstats.un.org/sdgs/report/2021/#sdg-goals>, and <https://unstats.un.org/sdgs/>

ⁱⁱ These items are the following: 1) mortgage or rent arrears; 2) lack of adequate heating; 3) no cover for unexpected financial expenses; 4) unable to consume a meal with meat, fish or a protein equivalent every second day; 5) can not afford one week annual holiday away from home; 6) can not afford a car due to the lack of financial resources; 7) no washing machine due to the lack of financial resources; 8) no colour television due to the lack of financial resources; 9) no telephone due to the lack of financial resources. Those who cannot afford at least three of the above items due to a lack of financial resources are considered to be deprived, and they will be classified into the severe deprivation category if 4 of the above statements apply to them.

ⁱⁱⁱ The ratio of people with less than 60 percent of the median household equalised income (calculated by OECD2 consumption unit) compared to the entire population. (The OECD2 consumption unit is OECD's standardised method to express the different needs entailed by the various household sizes. In this standard, the first adult



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represents a unit of 1.0, the second and each subsequent adult represent(s) a unit of 0.5, and a unit of 0.3 is attributed to each child aged under 14.)

^{iv} See REGULATION (EC) No 1177/2003 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 June 2003 concerning Community statistics on income and living conditions (EU-SILC <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003R1177&from=EN>)

^v For the relevant analysis see: Anne-Catherine Guio, David Gordon, Hector Najera, Marco Pomati: *Revising the EU material deprivation variables*, <https://ec.europa.eu/eurostat/documents/3888793/8309969/KS-TC-17-002-EN-N.pdf/da1887c3-a6b1-462e-bafb-e4f0b3fd3ab8?t=1507639315000>



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